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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
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STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENFELD/AADLER/CHINCKLEY
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/FERUS
EEB/CIP DAS GROSS, FSAEED, MSELINGER

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BEXP, KBIO, KIPR, KWMN, IN

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF MAY
26 TO MAY 29, 2009

¶1. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of May 26-29, 2009, including the following:

- Indian Telecom Major Bharti Airtel and MTN of South Africa Back
in Merger Negotiations
- Government Aims to Present Budget by Early July
- Bharti Wal-Mart to Open First Store in Amritsar
- Moody's Warns Indian Government of High Fiscal Deficit
- Government Pressures Public Banks to Lower Rates

Indian Telecom Major Bharti Airtel and MTN
of South Africa Back in Merger Negotiations

¶2. (U) India's leading private telecom operator Bharti Airtel and
South Africa's largest telecom company MTN Group Limited recently
revived merger talks, which had broken off in mid-2008. The
cross-ownership deal, if it goes through, would create a mobile
giant spanning across Africa, India and the Middle East, with more
than 200 million subscribers and over US\$20 billion in combined
annual revenues. Several problems had stymied previous talks,
including: a regulatory hurdle in India for Bharti as its foreign
ownership stake would have risen above the 74.5% limit stipulated by
Indian regulations (Bharti is now partly owned by Singapore
Telecommunications and UK-based Vodafone); and MTN's apparent
miscalculation of control over the new entity as MTN had proposed
that Bharti become its subsidiary, which was not acceptable to the
Indian telecom major.

¶3. (U) By terms of the proposal now under negotiation, Bharti
Airtel would get a 49% stake in MTN and the South African telco
would get a 36% economic interest in Bharti Airtel. Under the
proposed \$23 billion transaction, each company would pay cash and
equity for a stake in the other. Bharti would pay a net US\$4bn-\$5bn
in cash to acquire its stake in MTN and would then be given
substantial participatory and governance rights allowing it to
consolidate MTN into its accounts. Deutsche Bank and BofA Merrill
Lynch are advising MTN while Standard Chartered Bank is advising

Bharti. Both the companies issued individual statements with a mandatory caution that the discussions are at an early stage and may or may not lead to any transaction. If it were to go through, however, the merger would create one of the ten largest telephone companies in the world.

Government Aims to Present Budget by Early July

14. (SBU) Newly sworn-in Finance Minister Pranab Mukherjee indicated this week that his ministry will strive to have the budget ready for submission to Parliament by the first week of July, in accordance with the Congress Party Manifesto promise to complete the budget within 45 days of forming the government. The Ministry also faces a deadline for passage of the full year budget by July 31, the date at which the interim budget authorizations expire. Mukherjee told journalists this week that the budget will focus on inclusive growth and social programs for the "common man", as well as use reforms to stimulate the economy. He has also signaled that industry sectors most hardhit by the global economic downturn, such as textiles and IT, may get special help. The government is fiscally constrained - last fiscal year, the central deficit hit 8% and the interim budget forecast 6.5% deficit for the current fiscal year. One partial revenue solution, which could be announced in the new budget, is to re-start the government's divestment program, which stalled under Left opposition. The Congress Manifesto noted that while the government should keep majority control of public companies, minority shares could be sold off. Mukherjee stated that the government had to temporarily set aside fiscal deficit targets in the last year in order to prop up the economy, but expects fiscal consolidation to restart in the next two to three years.

NEW DELHI 00001096 002 OF 002

Bharti Wal-Mart to Open First Store in Amritsar

15. (U) The opening of Bharti Wal-Mart's first store in the city of Amritsar, Punjab was delayed earlier this week due to unrest in the state related to the attack on a Sikh temple and the death of a Sikh leader on May 24 in Vienna. The store, named Best Price Modern Wholesale, will be the first of 10 to 15 stores the retail chain hopes to open in India over the next three years, which will employ approximately 5,000 people. Although Wal-Mart has planned its entry into the Indian market for several years, local media has perceived the launch to be a sign of foreign investor confidence since the UPA government was re-elected two weeks ago. While FDI in multibrand retail is still not permitted in India, the Bharti Wal-Mart joint venture has provided an indirect conduit for Wal-Mart to enter the market as a wholesaler.

Moody's Warns of High Fiscal Deficit

16. (U) Moody Investors Service in its report on India released on May 28 said that the Congress-led coalition is a good development for the India's economy, as the government need no longer to rely on 'obstructive left parties for parliamentary support'. Moody's sees the development as providing scope for the government to rationalize spending, implement fiscal reforms and push forward with disinvestments of public sector enterprises. Moody's emphasized that the government has to quickly come up with a credible program for reducing its consolidated (center and states) fiscal deficit, which crossed 9 percent of India's GDP in FY 2008-09. The report also blames the growing subsidies and price controls for the government's present fiscal and debt positions.

17. (U) India's stable outlook recently appeared threatened, mainly due to substantial deterioration in the fiscal position amid a rise in India's dependence on foreign capital flows to drive its investment cycle. Moody's report said that India's credit rating may come under pressure if the government is not able to push ahead with fiscal reforms and rein in the widening budget deficit. Although its ratings outlook for foreign currency (Baa3) and local currency

(Ba2) is stable, Moody's perceives that the country faces various challenges in the macroeconomic management and a backlog of structural reforms.

Government Pressures Public Banks to Lower Rates

18. (SBU) Markets responded favorably this week to remarks from Finance Minister Mukherjee that he would be meeting with the heads of India's public sector banks to persuade them to lower interest rates. Mukherjee observed that loosened monetary policy has improved liquidity significantly since December, but that banks have still not appreciably brought down their lending rates. Most Indian businesses have seen their financing options evaporate since last October, with banks in India regularly charging 12-14% for corporate lending. A local business chamber, primarily made of small and medium sized businesses, also cheered the government signal that it would lean on public banks, which still own about two-thirds of banking assets.

19. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>.

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